

CITY OF INDEPENDENCE

Financial Statements

June 30, 2009

CITY OF INDEPENDENCE

INDEPENDENT AUDITOR'S REPORT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2009

CITY OF INDEPENDENCE

TABLE OF CONTENTS

		<u>Page</u>
Officials		4
Independent Auditor's Report		6-7
Management's Discussion and Analysis		8-13
Basic Financial Statements	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets - Cash Basis	A	16-17
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and		
Changes in Cash Balances	B	18-19
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and		
Changes in Cash Balances	C	20
Notes to Financial Statement		22-31
Required Supplemental Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and		
Changes in Balances - Budget and Actual (Cash Basis) - All		
Governmental Funds and Proprietary Funds		34-35
Notes to Required Supplementary Information - Budgetary Reporting		36
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in		
Cash Balances - Nonmajor Governmental Funds	1	38-39
Schedule of Indebtedness	2	40-41
Bond and Note Maturities	3	43
Schedule of Receipts by Source and Disbursements by		
Function - All Governmental Funds	4	44-45
Schedule of Federal Expenditures	5	46
Independent Auditor's Report		
on Internal Control over Financial Reporting		
and on Compliance and Other Matters Based		
on an Audit of Financial Statements performed		
in Accordance with Government Auditing Standards		48-50
Independent Auditor's Report		
on Compliance with Requirements Applicable		
to each Major Program and on Internal Control		
over Compliance in Accordance with OMB Circular A-133		53-54
Schedule of Findings and Questioned Costs		55-58
Audit Staff		59

CITY OF INDEPENDENCE

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Frank Brimmer	Mayor	January 2010
Mike Hayward	Mayor Pro Tem Council Member Ward 1	January 2010
Robert Hill	Council Member at Large	January 2012
Paul Paisley	Council Member at Large	January 2010
Cheryl Hand	Council Member Ward 2	January 2012
Richard Engen	Council Member Ward 3	January 2010
Steve Matteson	Council Member Ward 4 (resigned Oct. 2008)	January 2012
Arletta Schweitzer	Council Member Ward 4 (after Dec. 2008)	January 2012
Carl Scharff	Council Member Ward 5	January 2010
Alan Johnson	City Manager	Indefinite
Debra Lynn	City Clerk	Indefinite
Sarah Dooley-Rothman	City Attorney	Indefinite

CITY OF INDEPENDENCE



SHAFFER COMPANY, P.C.

Certified Public Accountant

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Sumner, Iowa 50674
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Member AICPA and ISCPA

A Professional Corporation
Roger L. Shaffer, C.P.A.

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Independence's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to me. My opinion, insofar as it relates to the condensed financial information included in Note 11 for the discretely presented component unit, is based on the report of the other auditor.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As described in Note 11, the City has chosen to present condensed financial information for its discretely presented component unit since complete financial statements of the component unit for the year ended December 31, 2008 have been audited by another auditor and are available from the component unit. The report of the other auditor, dated May 19, 2009, expressed an unqualified opinion on the financial statements.

In my opinion, based on my audit and the audit of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Independence as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my reports dated March 19, 2009 on my consideration of the City of Independence's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Independence's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2008 and (none of which are presented herein) and expressed an unqualified opinion on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. office of management and budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profits Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 25, 2010

CITY OF INDEPENDENCE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Independence provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 9%, or approximately \$1.0 million, from fiscal 2008 to fiscal 2009. Property tax decreased approximately \$21,000. Tax increment financing proceeds increased approximately \$195,000.
- Disbursements for governmental activities decreased 15%, or approximately \$1.7 million, in fiscal 2009 from fiscal 2008.
- The City's total cash basis net assets increased 26%, or approximately \$814,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities increased approximately \$591,000 and the assets of the business type activities increased by approximately \$223,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

CITY OF INDEPENDENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out to those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

CITY OF INDEPENDENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$2.3 million to \$2.9 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for services	\$ 545	540
Operating grants, contributions, and restricted interest	811	736
Capital grants, contributions, and restricted interest	3,734	5,341
General receipts:		
Property tax	1,928	1,949
Tax increment financing	1,045	850
Local option sales tax	508	468
Unrestricted investment earnings	73	90
Other general receipts	423	382
Proceeds from debt issued	990	698
Total receipts	10,057	11,054
Disbursements and transfers:		
Public Safety	1,189	1,605
Public Works	1,065	944
Culture & Recreation	823	780
Community & Economic Development	770	705
General Government	461	461
Debt Service	387	535
Capital Projects	4,720	6,053
Total disbursements	9,415	11,083
Change in cash basis net assets before transfers	642	(29)
Transfers, net	(51)	497
Change in cash basis net assets	591	468
Cash basis net assets beginning of year	2,313	1,845
Cash basis net assets end of year	\$ 2,904	2,313

CITY OF INDEPENDENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's total receipts for governmental activities were \$10.0 million compared to \$11.0 million last year, a decrease of 9%, or \$1.0 million. Most of the decrease is from receiving more airport grants in the prior year.

The total cost of all programs and services was \$9.4 million compared to 11.1 million for June 30, 2009. This decreased by approximately \$1.7 million, or 15% as a result of fewer capital projects than the prior year.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for services		
Water	\$ 628	671
Sewer	1,340	1,194
General receipts:		
Interest on investments	122	130
Total receipts and transfers	2,090	1,995
Disbursements:		
Water	661	435
Sewer	1,257	1,249
Total disbursements and transfers	1,918	1,684
Change in cash basis net assets before transfers	172	311
Transfers, net	51	(497)
Change in cash basis net assets	223	(186)
Cash basis net assets beginning of year	3,738	3,924
Cash basis net assets end of year	\$ 3,961	3,738

Total business type activities receipts for the fiscal year were \$2.090 million compared to \$1.995 million last year. This increased by approximately \$95,000, or 5%.

The cash balance increased by approximately \$223,000 from the prior year. Total disbursements for the fiscal year increased by 14% or \$234,000.

CITY OF INDEPENDENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Independence completed the year, its governmental funds reported a combined fund balance of \$2.9 million, an increase of approximately \$591,000 above last year's total of \$2.3 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$90,400 from the prior year to \$772,400. The City intends to use these receipts to help offset future property tax increases and fund programs.
- Local Option Sales Tax Fund ended with \$421,800, down \$86,800 from the prior year. These funds will continue to be used for Community Betterment projects.
- At the end of the fiscal year, the cash balance of the Employees' Benefits Fund was \$501,800, an increase of \$15,400.
- The Urban Renewal Tax Increment Financing Fund's cash balance increased by \$326,000, therefore removing last year's deficit balance and ending with \$234,400. Receipts of tax increment financing funds were \$1,045,000 for the year ended June 30, 2009 compared to \$850,000 for the prior year. These proceeds will be used for various construction and refurbishing projects within the urban renewal district.
- Capital project for the Airport ended with \$11,200, down \$180,000 from the prior year. This project is expected to be completed in 2010.
- At the end of the fiscal year, the cash balance of the Capital project for the Street Improvement Fund was \$975,600. This is an increase of \$1.22 million, of which \$989,700 came from the sale of G. O. Bonds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

For the propriety funds, the City reported a combined fund balance of \$3.96 million, an increase of approximately \$222,700 below last year's total of \$3.74 million. The following are the major reasons for the changes in fund balances from the prior year.

- The Water Fund cash balance decreased by \$62,700 to \$1.87 million, due primarily to a decrease in the sale of water.
- The Sewer Fund cash balance increased by \$285,400 to \$2.09 million, due primarily to an increase in sewer charges.

BUDGETARY HIGHLIGHTS

The City amended its budget on May 26, 2009. The amendment provided for an additional \$1.6 million in disbursements to cover capital projects. The amendment also provided for an additional \$2.5 million in revenues, for grants and bond proceeds.

During the year, expenditures came in under the amended budget by \$1.8 million. For revenues, the actual amounts received were \$1.9 million less than the amended budget.

CITY OF INDEPENDENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS

DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$9.615 million in bonds and other long-term debt, compared to approximately \$9.18 million last year, as shown below:

	Outstanding Debt at Year-End (Expressed in Thousands)	Year ended June 30,	
		2009	2008
General obligation bonds	\$	2,570	1,880
Sewer revenue bonds		7,045	7,300
Total	\$	9,615	9,180

Debt increased as a result of issuing general obligation bonds for a street improvements project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Independence's elected and appointed officials and department heads considered many factors when setting the fiscal year 2010 budget, tax rates, and fees that will be charged for various City activities.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. For fiscal year 2010, the Airport project is expected to be completed, as well as the street project.

These indicators were taken into account when adopting the budget for fiscal year 2010. Amounts available for appropriation in the operating budget are \$16.4 million, an increase of 20% over the final 2009 budget. Budgeted disbursements are expected to increase by approximately \$1.89 million to cover both the airport and street improvement projects.

If these estimates are realized, the City's budgeted cash balances are expected to increase by approximately \$832,000 by the end of the City's next fiscal year end.

For fiscal year 2010, the property tax levy will be at \$13.169 per \$1,000 of taxable valuation versus \$13.175 for fiscal year 20098, a slight decrease.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Barbara Rundle, City Clerk/Treasurer, 331 First Street East, Independence, Iowa 50644.

CITY OF INDEPENDENCE

CITY OF INDEPENDENCE

Basic Financial Statements

CITY OF INDEPENDENCE

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2009

		Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
	Disbursements			
Functions / Programs:				
Governmental activities:				
Public safety	\$ 1,188,864	6,774	67,958	0
Public works	1,065,016	353,676	516,784	0
Culture and recreation	823,228	184,537	65,116	0
Community and economic development	770,263	0	160,931	0
General government	461,238	0	265	0
Debt service	386,846	0	0	0
Capital projects	4,719,815	0	0	3,733,951
Total governmental activities	9,415,270	544,987	811,054	3,733,951
Business type activities:				
Water	661,609	627,589	0	0
Sewer	1,256,595	1,339,814	0	0
Total business type activities	1,918,204	1,967,403	0	0
Totals	\$ 11,333,474	2,512,390	811,054	3,733,951
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Sale of assets				
Proceeds from debt issued				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted				
Urban renewal purposes				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total Cash Basis Net Assets				

See notes to financial statements.

Exhibit A

	Business Type		
Governments Activities	Activities	Total	
(1,114,132)	0	(1,114,132)	
(194,556)	0	(194,556)	
(573,575)	0	(573,575)	
(609,332)	0	(609,332)	
(460,973)	0	(460,973)	
(386,846)	0	(386,846)	
(985,864)	0	(985,864)	
(4,325,278)	0	(4,325,278)	
0	(34,020)	(34,020)	
0	83,219	83,219	
0	49,199	49,199	
(4,325,278)	49,199	(4,276,079)	
1,679,207	0	1,679,207	
1,045,424	0	1,045,424	
248,881	0	248,881	
507,701	0	507,701	
72,977	119,660	192,637	
397,841	2,596	400,437	
25,680	0	25,680	
989,653	0	989,653	
(51,247)	51,247	0	
4,916,117	173,503	5,089,620	
590,839	222,702	813,541	
2,312,725	3,737,877	6,050,602	
\$ 2,903,564	3,960,579	6,864,143	
\$ 367,600	0	367,600	
164,241	787,135	951,376	
1,018,622	0	1,018,622	
975,635	0	975,635	
377,466	3,173,444	3,550,910	
\$ 2,903,564	3,960,579	6,864,143	

CITY OF INDEPENDENCE

Statement of Cash Receipts, Disbursements and Changes in Cash Balances Governmental Funds As of and for the year ended June 30, 2009

		Special Revenue	
	General	Local Option Sales Tax	Employees' Benefit
Receipts:			
Property tax	\$ 1,385,418	0	293,789
Tax Increment Financing (TIF) receipts	0	0	0
Other city tax	95,033	0	0
Licenses and permits	67,059	0	0
Use of money and property	46,726	2,632	0
Intergovernmental	258,536	507,701	0
Charges for services	544,987	0	0
Special assessments	0	0	0
Miscellaneous	65,263	38,742	6,100
Total receipts	2,463,022	549,075	299,889
Disbursements:			
Operating:			
Public Safety	920,117	0	268,747
Public Works	417,564	0	0
Culture & Recreation	706,297	0	116,931
Community & Economic Development	62,074	217,625	0
General Government	393,639	0	67,599
Debt Service	0	0	0
Capital Projects	0	0	0
Total disbursements	2,499,691	217,625	453,277
Excess of receipts over disbursements	(36,669)	331,450	(153,388)
Other financing sources (uses):			
Bond proceeds	0	0	0
Sale of Capital Asset	25,680	0	0
Operating transfers in	370,910	0	168,750
Operating transfers out	(450,325)	(418,267)	0
Total other financing sources (uses)	(53,735)	(418,267)	168,750
Net change in cash balances	(90,404)	(86,817)	15,362
Cash balances beginning of year	862,837	508,645	486,432
Cash balances end of year	\$ 772,433	421,828	501,794
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ 0	0	0
Unreserved:			
General fund	772,433	0	0
Special revenue funds	0	421,828	501,794
Capital projects funds	0	0	0
Permanent fund	0	0	0
Total cash basis fund balances	\$ 772,433	421,828	501,794

See notes to financial statements.

Exhibit B

Special Revenue	Capital Projects		Other Nonmajor	
Urban Renewal Tax Increment	Airport Project	Street Improvement	Governmental Funds	Total
0	0	0	248,881	1,928,088
1,045,424	0	0	0	1,045,424
0	0	0	0	95,033
0	0	0	0	67,059
23,608	0	0	11	72,977
0	3,362,839	121,856	667,475	4,918,407
0	0	0	0	544,987
0	0	0	10,687	10,687
0	0	0	249,256	359,361
1,069,032	3,362,839	121,856	1,176,310	9,042,023
0	0	0	0	1,188,864
0	0	0	647,452	1,065,016
0	0	0	0	823,228
430,361	0	0	60,203	770,263
0	0	0	0	461,238
0	0	0	386,846	386,846
0	3,628,875	304,609	786,331	4,719,815
430,361	3,628,875	304,609	1,880,832	9,415,270
638,671	(266,036)	(182,753)	(704,522)	(373,247)
0	0	989,653	0	989,653
0	0	0	0	25,680
0	86,000	414,325	139,920	1,179,905
(312,560)	0	0	(50,000)	(1,231,152)
(312,560)	86,000	1,403,978	89,920	964,086
326,111	(180,036)	1,221,225	(614,602)	590,839
(91,709)	191,226	(245,590)	600,884	2,312,725
234,402	11,190	975,635	(13,718)	2,903,564
0	0	0	164,241	164,241
0	0	0	0	772,433
0	0	0	113,233	1,036,855
234,402	11,190	975,635	(386,192)	835,035
0	0	0	95,000	95,000
234,402	11,190	975,635	(13,718)	2,903,564

CITY OF INDEPENDENCE

Exhibit CStatement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2009

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 627,589	1,339,814	1,967,403
Miscellaneous	2,596	0	2,596
Total operating receipts:	630,185	1,339,814	1,969,999
Operating disbursements:			
Business type activities	661,609	682,855	1,344,464
Excess (deficiency) of operating receipts over (under) operating disbursements	(31,424)	656,959	625,535
Non-operating receipts (disbursements)			
Interest on investments	68,754	50,906	119,660
Debt service	0	(573,740)	(573,740)
Net non-operating receipts (disbursements)	68,754	(522,834)	(454,080)
Excess (deficiency) of receipts over (under) disbursements	37,330	134,125	171,455
Operating transfers in (out), net	(100,000)	151,247	51,247
Net change in cash balances	(62,670)	285,372	222,702
Cash balances beginning of year	1,936,691	1,801,186	3,737,877
Cash balances end of year	\$ 1,874,021	2,086,558	3,960,579
Cash Basis Fund Balances			
Reserve for debt service	\$ 0	787,135	787,135
Unreserved	1,874,021	1,299,423	3,173,444
Total cash basis fund balances	\$ 1,874,021	2,086,558	3,960,579

See notes to financial statements.

CITY OF INDEPENDENCE

Notes to the Financial Statements

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

(1) **Summary of Significant Accounting Policies**

The City of Independence is a political subdivision of the State of Iowa located in Buchanan County. It was first incorporated in 1864 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, public improvements and general government services. The City also provides water and sewer for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Independence has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Discretely Presented Component Unit

The Independence Light and Power, Telecommunications (Utility), established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Utility is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 11 was prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Complete financial statements, for the year ended December 31, 2008 can be obtained from the Utility's administrative office, P.O. Box 754, 400 7th Avenue NE, Independence, Iowa 50664.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Buchanan County Assessor's Conference Board, Buchanan County Emergency Management Commission, and Buchanan County Joint E911 Service Board.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(1) **Summary of Significant Accounting Policies, Continued**

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

(1) **Summary of Significant Accounting Policies, Continued**

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursement, the fixed charges and the capital improvement costs that are not paid for other funds.

Special Revenue:

The Local Option Sales Tax Fund is used to account for the receipts and disbursements of the projects it financed.

The Employees' Benefits Fund is used to account for the collection of payroll taxes and provide social security and medicare, IPERS, and health insurance benefits to its employees.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

Capital Projects:

The Airport Project is used to account for the expansion of the airport.

The Street Improvement Project is used to account for the reconstruction of some streets within the City.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

(1) **Summary of Significant Accounting Policies, Continued**

C. Measurement Focus and Basis of Accounting

The City of Independence maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the function of Public Safety. While the budget was amended to cover the expenditure, the budget should have been amended before disbursing the funds.

(2) **Deposits and Investments**

The City's deposits and investments at June 30, 2009 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2009 the City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

(3) **Bonds Payable**

Annual debt service requirements to maturity for general obligation bonds, loan, and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	260,000	91,226	380,000	308,505	640,000	399,731
2011	245,000	83,213	395,000	293,475	640,000	376,688
2012	245,000	75,468	405,000	277,850	650,000	353,318
2013	255,000	67,540	350,000	261,818	605,000	329,358
2014	255,000	59,050	360,000	247,707	615,000	306,757
2015	265,000	50,213	375,000	232,968	640,000	283,181
2016	270,000	40,838	390,000	217,388	660,000	258,226
2017	275,000	30,843	410,000	200,888	685,000	231,731
2018	285,000	20,208	425,000	183,188	710,000	203,396
2019	105,000	8,763	450,000	164,548	555,000	173,311
2020 and after	110,000	4,510	3,105,000	533,326	3,215,000	537,836
TOTALS	2,570,000	531,872	7,045,000	2,921,661	9,615,000	3,453,533

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$5,035,000 and \$3,325,000 in sewer revenue notes issued in September of 2003 and May of 2005, respectively. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2025. Annual principal and interest payments on the bonds are expected to require around 90% of net sewer receipts. The total principal and interest remaining to be paid on the bonds is \$9,966,661. For the current year, principal and interest paid and total customer net receipts were \$255,000 and \$317,940, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

(3) **Bonds Payable, Continued**

(b) Sufficient monthly transfers shall be made to the sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

(c) Additional monthly transfers of \$5,000 to the wastewater treatment improvement fund, and 1/12 of the next year's obligation to a sewer revenue bond sinking fund within the Enterprise Funds shall be made until specific minimum balance have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(d) All funds remaining in the sewer rental account after the payment of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue surplus account within the Enterprise Funds until a minimum of \$175,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other accounts might be unable to make.

(4) **Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa, 50306-9117.

Most plan members are required to contribute 4.10% of their annual salary and the City is required to contribute 6.35% of annual covered salary. Certain employees in special risk occupation and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$113,786, \$107,869 and \$115,826 respectively, equal to the required contributions for each year.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(5) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$116,918
Sick Leave *	679,459 *
Total	\$796,377

* Sick leave is not payable upon termination, retirement or death.

This liability has been computed based on rates of pay as of June 30, 2009.

(6) **Litigation**

The City had no pending litigation, claims, or assessments at June 30, 2009.

(7) **Risk Management**

The City of Independence is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) **Related Party Transactions**

The City had no business transactions between the City and the City's officials and employees.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise Water	100,000
General	Special Revenue Urban Renewal TIF	260,910
	Local Option Sales Tax	10,000
Special Revenue Employees' Benefits	Special Revenue Local Option Sales Tax	168,750
Debt Service	Special Revenue Urban Renewal TIF	51,650
	Local Option Sales Tax	86,756
Capital Projects		
Street Improvements	General	364,325
Street Improvements	Debt Service	50,000
Airport Project	General	86,000
New Library Project	Special Revenue Local Option Sales Tax	1,514
Enterprise Sewer	Special Revenue Local Option Sales Tax	151,247

(10) Deficit Balance

The following funds had deficit balances at June 30, 2009.

Special Revenue - Road Use	19,965
Capital Project - City Centre Remodel Project	394,924

For the Road Use Fund, the deficit balances was a result of project costs incurred prior to availability of funds. For the City Centre Remodel Project, the bond issuance to cover this expenditure was voted down by the voters of the City. The deficits will be eliminated upon receipt of Road Use funds, sale of building and/or transfers.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(11) **The Independence Light and Power, Telecommunications**

The Independence Light and Power, Telecommunications (Utility) provides electric and telecommunication services to the City and its residents. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for its discretely presented component unit. Following is the condensed financial information for the Utility for the year ended December 31, 2008.

Assets	
Current assets	\$ 2,662,822
Capital assets, net of accumulated depreciation	11,891,317
Other	3,848,645
Total Assets	18,402,784
Liabilities	
Current liabilities	1,652,556
Other	5,255,703
Total Liabilities	6,908,259
Net Assets	
Invested in capital assets, net of related debt	5,449,235
Unrestricted	6,045,290
Total Net Assets	\$ 11,494,525

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(11) **The Independence Light and Power, Telecommunications, continued**

Condensed Statement of Income		
Revenues		
Sales to customers	\$	8,963,269
Other		86,839
Total Revenue		9,050,108
Operating Expenses		
Generation expenses		4,708,320
Cable and internet expenses		1,463,439
Other		2,481,119
Total Liabilities		8,652,878
Operating Income		397,230
Non-operating Revenues (Expenses)		
Interest income		153,321
Interest expense		(222,939)
Other non-operating - net of revenues (expenses)		12,157
Total Non-operating Revenues (Expenses)		(57,461)
Net Income	\$	339,769
Condensed Statement of Changes in Net Assets		
Net Assets beginning of year		11,310,756
Net income		339,769
Distribution to the City		(156,000)
Total Net Assets	\$	11,494,525

CITY OF INDEPENDENCE

CITY OF INDEPENDENCE
Required Supplementary Information

CITY OF INDEPENDENCE

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 1,928,088	0
Tax Increment Financing (TIF) receipts	1,045,424	0
Other city tax	95,033	0
Licenses and permits	67,059	0
Use of money and property	72,977	119,660
Intergovernmental	4,918,407	0
Charges for services	544,987	1,967,403
Special Assessments	10,687	0
Miscellaneous	359,361	2,596
Total receipts	9,042,023	2,089,659
Disbursements:		
Public Safety	1,188,864	0
Public Works	1,065,016	0
Health & Social Services	0	0
Culture & Recreation	823,228	0
Community & Economic Development	770,263	0
General Government	461,238	0
Debt Service	386,846	0
Capital Projects	4,719,815	0
Business type activities	0	1,918,204
Total disbursements	9,415,270	1,918,204
Excess of receipts over disbursements	(373,247)	171,455
Other financing sources, net	964,086	51,247
Excess of receipts and other financing sources over disbursements and other financing uses	590,839	222,702
Balances beginning of year	2,312,725	3,737,877
Balances end of year	\$ 2,903,564	3,960,579

See accompanying independent auditor's report.

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance	Net as % of Final Budget
1,928,088	1,939,514	1,939,514	(11,426)	99.4%
1,045,424	1,032,843	1,032,843	12,581	101.2%
95,033	520,573	578,274	(483,241)	16.4%
67,059	59,415	59,415	7,644	112.9%
192,637	224,676	224,676	(32,039)	85.7%
4,918,407	5,296,325	5,460,705	(542,298)	90.1%
2,512,390	2,707,450	2,708,450	(196,060)	92.8%
10,687	50,000	50,000	(39,313)	21.4%
361,957	309,215	1,006,372	(644,415)	36.0%
11,131,682	12,140,011	13,060,249	(1,928,567)	85.2%
1,188,864	1,240,730	1,252,083	63,219	95.0%
1,065,016	1,178,523	1,192,173	127,157	89.3%
0	475	475	475	0.0%
823,228	832,624	852,276	29,048	96.6%
770,263	951,726	1,102,642	332,379	69.9%
461,238	492,249	497,907	36,669	92.6%
386,846	386,846	386,846	0	100.0%
4,719,815	5,040,000	5,899,980	1,180,165	80.0%
1,918,204	1,849,787	1,994,787	76,583	96.2%
11,333,474	11,972,960	13,179,169	1,845,695	86.0%
(201,792)	167,051	(118,920)	82,872	
1,015,333	20,000	1,230,405	215,072	
813,541	187,051	1,111,485	297,944	
6,050,602	6,068,892	6,068,892	18,290	
6,864,143	6,255,943	7,180,377	316,234	

CITY OF INDEPENDENCE

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Disbursements for the Proprietary Funds are required to be budgeted. During the year, a budget amendment increased budgeted disbursements by \$1,206,209. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

CITY OF INDEPENDENCE

Other Supplementary Information

CITY OF INDEPENDENCE

Statement of Cash Receipts, Disbursements and Changes in Cash Balances

Nonmajor Governmental Funds

As of and for the year ended June 30, 2009

	Special Revenue		
	Road Use	Urban Renewal	Debt Service
Receipts:			
Property tax	\$ 0	0	248,881
Intergovernmental	506,544	160,931	0
Special assessments	0	0	10,687
Use of money and property	0	0	0
Miscellaneous	0	0	0
Total receipts:	506,544	160,931	259,568
Disbursements:			
Operating:			
Public works	647,452	0	0
Community & Economic development	0	60,203	0
Debt service	0	0	386,846
Capital projects	0	0	0
Total disbursements	647,452	60,203	386,846
Excess (deficiency) of receipts over (under) disbursements	(140,908)	100,728	(127,278)
Operating transfers in (out), net	0	0	88,406
Net change in cash balances	(140,908)	100,728	(38,872)
Cash balances beginning of year	120,943	32,470	203,113
Cash balances end of year	\$ (19,965)	133,198	164,241
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ 0	0	164,241
Unreserved:			
Special revenue fund	(19,965)	133,198	0
Capital project fund	0	0	0
Permanent fund - Cementery perpetual care	0	0	0
Total cash basis fund balances	\$ (19,965)	133,198	164,241

See accompanying independent auditor's report.

Schedule 1

Capital Projects					
Storm Sewer Improvement	Skateboard Park	City Centre Remodel Proj	Library Project	Permanent Fund	Total
0	0	0	0	0	248,881
0	0	0	0	0	667,475
0	0	0	0	0	10,687
0	11	0	0	0	11
0	0	0	249,256	0	249,256
0	11	0	249,256	0	1,176,310
0	0	0	0	0	647,452
0	0	0	0	0	60,203
0	0	0	0	0	386,846
0	0	394,924	391,407	0	786,331
0	0	394,924	391,407	0	1,880,832
0	11	(394,924)	(142,151)	0	(704,522)
0	0	0	1,514	0	89,920
0	11	(394,924)	(140,637)	0	(614,602)
5,501	3,220	0	140,637	95,000	600,884
5,501	3,231	(394,924)	0	95,000	(13,718)
0	0	0	0	0	164,241
0	0	0	0	0	113,233
5,501	3,231	(394,924)	0	0	(386,192)
0	0	0	0	95,000	95,000
5,501	3,231	(394,924)	0	95,000	(13,718)

CITY OF INDEPENDENCE

Schedule of Indebtedness

Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
G. O. refunding bonds, Series 2005 B	May 1, 2005	2.85 to 4.30	2,565,000
G. O. Library bonds, Series 2007	December 10, 2007	3.20 to 3.70	700,000
G. O. Street Improvement bonds, Series 2009	April 29, 2009	2.25 to 4.10	995,000
Total General obligation bonds			
Revenue bonds:			
Sewer revenue improvement and refunding bonds	September 1, 2003	3.70 to 4.25	5,035,000
Sewer revenue improvement bonds, series 2005 A	May 1, 2005	4.40 to 5.00	3,325,000
Total Revenue bonds			
Totals			

See accompanying independent auditor's report.

Schedule 2

Balance Beginning of Year	Issued during Year	Redeemed during Year	Balance End of Year	Interest Paid	Fees Paid	Interest Due and Unpaid
1,180,000	0	255,000	925,000	44,690	400	3,023
700,000	0	50,000	650,000	36,356	400	1,886
0	995,000	0	995,000	0	0	6,212
1,880,000	995,000	305,000	2,570,000	81,046	800	11,121
3,975,000	0	255,000	3,720,000	160,772	400	12,612
3,325,000	0	0	3,325,000	157,168	400	13,097
7,300,000	0	255,000	7,045,000	317,940	800	25,709
9,180,000	995,000	560,000	9,615,000	398,986	1,600	36,830

CITY OF INDEPENDENCE

CITY OF INDEPENDENCE

Schedule 3

Bond Maturities

June 30, 2009

General Obligation Bonds							
G. O. Refunding Bonds, Series 2005 B \$2,565,000 Issued May 1, 2005			Library Bonds Series 2007 \$700,000 Issued December 10, 2007		Street Improvement Series 2009 \$995,000 Issued April 29, 2009		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total Revenue Bonds
2010	3.50%	125,000	3.25%	60,000	2.25%	75,000	280,000
2011	3.60%	100,000	3.30%	65,000	2.50%	80,000	245,000
2012	3.75%	100,000	3.35%	65,000	2.50%	80,000	245,000
2013	3.90%	100,000	3.40%	70,000	2.60%	85,000	255,000
2014	4.00%	100,000	3.45%	70,000	2.85%	85,000	255,000
2015	4.05%	100,000	3.50%	75,000	3.00%	90,000	265,000
2016	4.10%	100,000	3.60%	80,000	3.35%	90,000	270,000
2017	4.20%	100,000	3.65%	80,000	3.70%	95,000	275,000
2018	4.30%	100,000	3.70%	85,000	4.00%	100,000	285,000
2019		0		0	4.05%	105,000	105,000
2020		0		0	4.10%	110,000	110,000
Totals		\$925,000		\$650,000		\$995,000	\$2,570,000

Revenue Bonds					
Sewer Revenue Improvement and Refunding Bonds \$5,035,000 Issued September 1, 2003			Sewer Revenue Improvement Bonds, Series 2005 A \$3,325,000 Issued May 1, 2005		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total Revenue Bonds
2010	3.75%	260,000	4.40%	120,000	380,000
2011	3.75%	270,000	4.40%	125,000	395,000
2012	3.75%	275,000	4.40%	130,000	405,000
2013	3.80%	215,000	4.40%	135,000	350,000
2014	3.90%	220,000	4.40%	140,000	360,000
2015	4.00%	230,000	4.40%	145,000	375,000
2016	4.125%	240,000	4.40%	150,000	390,000
2017	4.20%	250,000	4.50%	160,000	410,000
2018	4.25%	260,000	4.60%	165,000	425,000
2019	4.25%	275,000	4.65%	175,000	450,000
2020	4.25%	285,000	4.75%	180,000	465,000
2021	4.25%	300,000	4.80%	190,000	490,000
2022	4.25%	315,000	4.85%	200,000	515,000
2023	4.25%	325,000	4.90%	210,000	535,000
2024		0	5.00%	535,000	535,000
2025		0	5.00%	565,000	565,000
Totals		\$3,720,000		\$3,325,000	\$7,045,000

See accompanying independent auditor's report.

CITY OF INDEPENDENCE

Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds

For the Last Five Years ended June 30,

	2009	2008	2007
Receipts:			
Property tax	\$ 1,928,088	1,949,099	1,801,693
Tax Increment Financing (TIF) receipts	1,045,424	850,023	924,900
Other city tax	95,033	101,238	22,104
Licenses and permits	67,059	33,591	34,136
Use of money and property	72,977	89,531	95,688
Intergovernmental	4,918,407	5,624,583	1,806,638
Charges for services	544,987	540,132	622,263
Special assessments	10,687	14,039	33,281
Miscellaneous	359,361	1,152,369	360,942
Total receipts	\$ 9,042,023	10,354,605	5,701,645
Disbursements:			
Operating:			
Public Safety	\$ 1,188,864	1,604,746	1,519,395
Public Works	1,065,016	944,049	910,403
Culture & Recreation	823,228	780,356	715,978
Community & Economic Development	770,263	411,246	592,420
General Government	461,238	460,743	433,101
Debt Service	386,846	535,053	544,152
Capital Projects	4,719,815	6,346,405	1,592,051
Total disbursements	\$ 9,415,270	11,082,598	6,307,500

Schedule 4

<u>2006</u>	<u>2005</u>
1,680,132	1,772,674
740,900	1,300,775
51,308	7,149
63,706	63,091
63,329	14,860
1,685,868	1,748,426
627,273	603,223
40,707	63,632
212,944	152,247
<u>5,166,167</u>	<u>5,726,077</u>

1,328,680	1,275,999
899,601	859,456
751,392	623,785
345,010	469,086
392,797	368,922
549,959	776,233
621,700	516,989
<u>4,889,139</u>	<u>4,890,470</u>

Schedule 5**CITY OF INDEPENDENCE****Schedule of Expenditures of Federal Awards**

Year Ended June 30, 2009

Program	CFDA Number	Grant Number	Program Expenditures
Direct:			
Department of Transportation Federal Aviation Administration			
Runway Engineering	20.106	3-19-0045-04	\$ 597
Reconstruction	20.106	3-19-0045-05	2,222,474
Property Acquisition	20.106	3-19-0045-06	7,197
Runway Extension	20.106	3-19-0045-07	1,267,366
Parallel Taxiway	20.106	3-19-0045-08	90,720
Total Direct			<u>3,588,354</u>
Indirect:			
U. S. Department of Homeland Security: Iowa Department of Public Defense: Iowa Homeland Security and Emergency Management Division: Hazard Mitigation Grant Program			
	97.039	FEMA DR-1688	<u>60,203</u>
Total			<u>\$ 3,648,557</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Independence and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profits Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

CITY OF INDEPENDENCE

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards



SHAFFER COMPANY, P.C.

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Member AICPA and ISCPA

A Professional Corporation

Roger L. Shaffer, C.P.A.

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

**To the Honorable Mayor and
Members of the City Council:**

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2009, which collectively comprise of the City's basic financial statements listed in the table of contents and have issued my report thereon dated March 25, 2010. My report was modified to include a reference to another auditor. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Another auditor audited the financial statements of the Independence Light and Power, Telecommunications, a discretely presented component unit, as described in my report on the City of Independence's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters reported on separately by the other auditor.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Independence's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Independence, Iowa's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Independence, Iowa's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies, including deficiencies I consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Independence, Iowa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Independence, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Independence, Iowa's internal control. I consider the deficiencies in internal control described in Part II of the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Independence, Iowa's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe item II-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Independence's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Governmental Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the Accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Independence's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Responses. While I have expressed my conclusions on the City's responses, I did not audit the City of Independence's responses and, accordingly, I express no opinion on them

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Independence, and other parties to whom the City of Independence may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Independence during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 25, 2010

CITY OF INDEPENDENCE

CITY OF INDEPENDENCE

Independent Auditor's Report
on Compliance with Requirements
Applicable to each Major Program
and on Internal Control over Compliance
with OMB Circular A-133



SHAFFER COMPANY, P.C.

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A Professional Corporation
Roger L. Shaffer, C.P.A.

**Independent Auditor's Report on Compliance with Requirements
Applicable to each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133**

**To the Honorable Mayor and
Members of the City Council:**

Compliance

I have audited the compliance of the City of Independence, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2009. The City of Independence, Iowa's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Independence, Iowa's management. My responsibility is to express an opinion on City of Independence, Iowa's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Independence, Iowa's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Independence, Iowa's compliance with those requirements.

In my opinion, the City of Independence, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Independence is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing my audit, I considered the City of Independence's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Independence's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects that City's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Independence, and other parties to whom the City of Independence may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 25, 2010

CITY OF INDEPENDENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose a non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program was noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.106 - Federal Aviation Administration
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City did not qualify as a low-risk auditee.

CITY OF INDEPENDENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 Segregation of duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that several of the accounting procedures are sometimes done by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, that City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF INDEPENDENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

No material weaknesses in internal control over major program was noted.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-09 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2009.

IV-B-09 Certified Budget - Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted.

IV-C-09 Questionable Disbursements - No disbursements were noted for parties, banquets, or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-09 Business Transactions - There were no business transactions between the City and City officials or employees.

IV-F-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-09 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

CITY OF INDEPENDENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part III: Other Findings Related to Statutory Reporting Continued:

IV-H-09 Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

IV-I-09 Revenue Bonds and Notes - The City has complied with revenue bond and note resolutions.

IV-J-09 Payment of General Obligation Bonds - The City properly paid for its general obligation bonds out of the Debt Service Fund.

IV-K-09 Financial Condition - The Capital Projects City Centre Remodel Project Fund and the Special Revenue Road Use Fund, both had deficit balances at June 30, 2009. City Centre Remodel Project had a deficit of \$394,924 and Road Use had a deficit of \$19,965.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return these funds to a sound financial position.

Response - For the Capital Project, the deficit was due a bond being voted down by the citizens of the City. The building is currently for sale. As for the Road Use Fund, expenditures were made prior to the receipt of Road Use funds.

Conclusion - Response accepted.

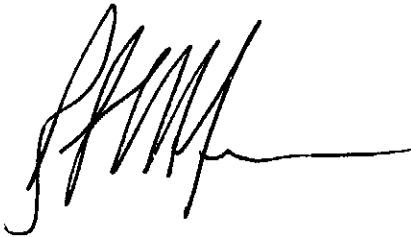
CITY OF INDEPENDENCE

AUDIT STAFF

This audit was performed by:

Roger L. Shaffer, C.P.A., Owner & Manager of the Firm

SHAFFER COMPANY, P.C.

A handwritten signature in black ink, appearing to read 'R. Shaffer', with a long horizontal line extending to the right.

ROGER L. SHAFFER
Certified Public Accountant